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MONTHLY PROJECTIONS
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PLUNGING DOLLAR CHANGES INFLATION AND GROWTH PROSPECTS

Dollar declines were anticipated in 1987 as a result of the large current account deficit projected for the year. In effect, foreign investors would be required to absorb $150 billion of American assets. While their demand for dollar assets remains strong, such an absorption without further dollar value concessions appeared to be unlikely. Furthermore, although trade flows are beginning to change with increasing American exports and diminished non-oil imports, the oil component of imports continues to rise. Both a reduction in domestic oil production and an increase in the dollar value of oil imports assures rising oil imports for the foreseeable future. As a result, the current account deficit is not expected to diminish significantly in 1987.

At the same time, sluggish economic activity in the United States continues to force interest rates downward. This has been reducing the interest rate gap between assets in the United States and assets abroad. Thus, even as foreign investors are being called upon to absorb more American assets, the relative attractiveness of those assets is diminishing Indeed, our November forecast suggested that the trade-weighted value of the dollar would fall below 100 on a 1973 base, but the decline was not expected to be as rapidly as has materialized. In the month of January, the German currency has appreciated 7.7% against the U.S. dollar. The yen is 4.9% higher while the British pound is 4.1% higher. To be sure, the dollar's decline has been less than 1% against the Taiwan dollar and less than one-half percent against the South Korean won. As a result, the impact of the dollar's decline upon trade flows remains uneven. Nevertheless, the dollar's early and substantial weakness at the beginning of 1987 alters the expected economic environment for the year.

First, the dollar's further decline almost certainly is responsible for much of the increase in raw material prices that has developed in recent weeks. Although the Journal of Commerce index of raw materials has stabilized in the past week, it has been growing at a 12% annual rate during the past three months. Prices of nonenergy crude materials other than foodstuffs also have

been increasing about 1% per month. These increasing prices soon should spill over into more general industrial materials and lead to increasing commodity price inflation. Indeed, American corporations once again began earning profits on the price appreciation of their inventories in the fourth quarter. As a result, inflationary pressures during the latter half of 1987 may be more vigorous than projected earlier. Inflation could begin exceeding a 4% growth path even before 1987 comes to an end.

Second, rising commodity inflation will begin to encourage inventory investments. Most of the inventory liquidations in manufacturing were caused by high carrying costs for inventories. Not only did purchasers need to finance the inventories, but prices generally were falling earlier in 1986. As a result, inventories actually suffered reduced prices while they were waiting to be used. Now that modest commodity inflation has reappeared, increasing inventory investments are likely. This will add to economic growth, especially in the latter part of 1987, but it will also begin exerting upward pressures upon short-term interest rates.

Third, the more dramatic decline in the dollar's value than expected earlier will intensify the development of favorable trade flows. Exports should grow more intensely, possibly increasing by as much as 8% in 1987 after adjustment for inflation. However, export gains will continue to be restrained by weakness in foreign markets. In addition, the volume of imports probably will slow slightly. However, increased inventory investments in the United States will prevent any significant deterioration in commodities flowing into the United States. Trade deficits will shrink, but the magnitude of their decline will only marginally exceed the increase in earnings by foreign investors from their American assets. Therefore, the current account deficit will continue to shrink only modestly.

How much farther the dollar will fall remains difficult to determine. On a purchasing power parity basis, the dollar's decline against most European currencies appears to be sufficient to once again establish the United States as a low-cost producer. In the Pacific, however, the dollar could fall as much as 30% further against the Japanese yen before purchasing power parity is restored. Even greater declines would be necessary against other Pacific currencies, as they have barely adjusted to the dollar's weakness.

However, such purchasing power parity measurements merely show neutrality in trade flows at equilibrium. They do not indicate the degree to which trade flows must favor the United States if foreign investors become satiated with dollar-based assets. Those investors are becoming less willing to acquire American assets without further currency concessions. We are currently projecting that the German mark will not stabilize before reaching 1.7 to the dollar and that the yen will fall to 140 before stability develops.

Even before currency equilibrium is established, foreign investors will be seeking American real estate and equity ownership. While they could wait until the falling dollar further increases the attractiveness of American assets, the rising American stock market suggests that such delays are not helpful. However, bond investments may be delayed until interest rate yields rise sufficiently in the United States to offset prospects of further dollar devaluation. Thus, interest rates should rise modestly while the currency adjustment continues to evolve.

In fact, weakness in the currency markets explains why the stock market has performed so favorably in January without any supporting role from the bond market. Interest rates are higher today than they were at the beginning of the year. Yet, this is exactly what should be expected as a falling dollar increases the attractiveness of real assets in the United States while decreasing the attractiveness of financial instruments until yields have widened sufficiently to offset the currency risk that new investors will face.

Quarterly Profile of GNP

	1986-4	1987-1	1987-2	1987-3	1987-4	1986 Annual	1987 Annual
Real:	1.7	1.7	2.1	1.8	1.9	2.5	1.9
Price:	1.0	3.5	3.8	3.8	4.1	2.7	3.1
Nominal:	2.6	5.5	5.6	5.8	6.0	5.3	5.1

Monthly Statistical Highlights for January 1987

Payroll employment +208,000; index of hours worked +0.2%; household employment +220,000; civilian unemployment rate 6.7%; personal income +0.1%; savings rate 4.3%; personal consumption -1.5%; retail sales -4.3%; auto sales 8.8 million units; housing starts -11.3%; housing permits -24.7%; construction expenditures -1.2%; business inventories +0.3%; orders for durable goods -0.3%; orders for nondefense capital goods -1.9%; industrial production +0.2%; CPI +0.5%; PPI +0.3%; consumption deflator +0.3%; leading indicators -0.3%; real GNP -0.6%; M1 +9.4%; M2 +8.7%.

Monthly Statistical Highlights for February 1987

Payroll employment +203,000; index of hours worked 0.2%; household employment +217,000, civilian unemployment rate 6.7%; personal income +0.4%; savings rate 4.1%; personal consumption +0.7%; retail sales +0.9%; auto sales 9.3 million units; housing starts +2.3%; housing permits +2.2%; construction expenditures -0.1%; business inventories +0.5%; orders for durable goods +0.5%; orders for nondefense capital goods +0.2%; industrial production +0.2%; CPI +0.5%; PPI +0.8%; consumption deflator +0.4%; leading indicators -0.2%; real GNP +4.6%; M1 +6.7%; M2 +7.0%.

Commentary

Employment - On the surface, the dip in hours worked in December appears to be ominous. However, most of that weakness was caused by very cautious hiring in the trade sector. A rebound in hours in that sector is anticipated in January. Manufacturing payrolls expanded 31,000 while the manufacturing workweek also increased.

The hourly earnings index declined slightly in December and is now only 1.8% above previous year levels. This continues to show no increase in wage inflation at the present time. Despite the decline in hours, the diffusion index was more than 61% showing employment gains, suggesting a broad based and healthy expansion in employment prospects.

Personal Income and Outlays - Personal income was dramatically distorted by a $20 billion increase in farm subsidies during December. Excluding the subsidies, personal income would have increased only 0.2%. In January, personal income will again have several unusual factors. While farm subsidies will remain high, they probably will decline slightly from December's levels. Increasing social security tax bases will be reflected in higher social security accruals in January, reducing personal income by more than $3 billion. Also, changes in tax brackets to reflect inflation along with withholding adjustments for individuals to reflect new tax provisions should significantly increase disposable income and reduce tax liabilities. Of course, most of these adjustments will be on an accrual basis and will not significantly alter the liquidity of households until later in the year. Therefore, the statistical surge in disposable income will have relatively modest effect upon consumer outlays.

Outlays themselves will be significantly restrained by a dramatic slowing in automobile sales. Apparently, loss of sales tax deductability caused a shifting of more than 250,000 cars from 1987 purchases to purchases in December 1986. The result will be relatively sluggish automobile sales early in 1987. During the first 20 days of January, sales have been running at an estimated 8.7 million units. Obviously, this reversal will significantly lower retail sales and consumer outlays. Consumer outlays should be increased by higher utility charges in January and also by higher purchases of imputed financial services. Indeed, the less than $3 billion increase in service expenditures during December reflects a lull in stock market activity and under utilization of utilities because of a relatively mild December. Some tax sales shifting probably occurred in nonauto durables, although the impact there should be relatively light. Unlike the automobile sales tax benefit, which is a separate line on the sales tax deduction form for 1986 income, those benefitting from sales tax deductions on other large ticket items would need to enumerate their sales tax rather than use tax tables. Such enumeration is done by less than 10% of all taxpayers.

Construction - Mild winter weather also was readily apparent in housing starts for December. Activity increased dramatically in the midwest and northeast where winter weather was delayed. Relatively modest housing increases were reflected in the south and west, where weather problems are less important in December. A return to more normal winter weather should significantly reduce housing starts in January. In addition, a surge in housing permits was largely the result of a change in California fees after January 1. As a result, many builders took out their winter permits in December. This surge in permits will, unfortunately, distort the leading indicators, causing them to rise much more dramatically than fundamentals suggest. In January, permits then should fall sharply.

In general, our estimates of single-family starts have been reduced for 1987 as a result of relatively sluggish single-family sales. This sales resistence appears to be related to prices of single-family homes and may also reflect less favorable demographics than had been expected. Mortgage rates, on the other hand, are expected to be slightly lower in 1987 than in our earlier forecasts.

Revisions in construction spending show that nonresidential spending has been trending downward since August. This weakness in nonresidential construction is expected to intensify in the early months of 1987 before leveling out toward the end of the year. On the other hand, temporary weakness in public construction is expected to be reversed once the tax-exempt markets absorb the

impact of changing tax laws. Construction inflation has remained subdued since July, but is expected to trend upward in 1987. Most of the increase in construction costs will be reflected in gradually intensified wage pressures rather than any significant price increases for materials. We are currently projecting a 5.2% decline in inflation adjusted construction expenditures during the twelve months of 1987.

Business Activity - Business inventories showed surprising liquidation in November despite relatively weak automobile sales during that month. The dramatic surge in automobile sales in December assures a significant decline in inventories during that month. Indeed, reduced inventory investment has been one of the factors leading to lower estimates of economic activity during the fourth quarter. Orders were surprisingly strong in November, but they apparently were trying to attract shipments before the beginning of the new year. According to the old tax codes, equipment followed a half-year depreciation cycle. As a result, if 40% of all equipment was put into service in December, that equipment still would receive six months of depreciation. Depreciation now is on a mid-quarter basis, which sharply reduces the tendency to acquire shipments at the end of the year. Nevertheless, distorted orders and shipments probably were instigated by the tax codes in November and December. As a result, durable goods activity should slow significantly early in 1987.

It should be noted that inventory profits again materialized during the fourth quarter, as anticipated. Most of these inventory gains are in the energy component as a result of increasing oil prices. However, other commodity prices also are beginning to rise. Typically, a swing to a negative IVA leads to intensifying inventory accumulations. Such accumulations have not yet been included in our analysis.

Industrial production continues to show little relationship to GNP measures of goods production in any given quarter. Although industrial production rose sharply in the fourth quarter, goods production showed only modest gains. Apparently, increasing distortions on a quarterly basis are developing for the industrial productions index, but the source of these distortions is not readily apparent.

Prices - Because of shifts in automobile sales, there will be dramatic shifts in the consumer durables deflator. In addition to these composition shifts caused by automobile sales, the unusually low GNP deflator for the fourth quarter appears to be the result of the inability of the GNP accounts to effectively capture the impact of import prices in the quarter in which such price increases occur. Because prices of imports accelerated during the fourth quarter, the GNP deflator was reduced. As import prices begin moderating, the deflator probably will accelerate. This unfortunate pattern of price movements is the result of the use of the PPI, which is a domestic-based deflator, for most of the investment components of the GNP index. As a result, imported goods which are inventoried, and not yet registered in consumer spending, will not have their import prices fully neutralized. With accelerating import prices continuing in the first quarter, the GNP deflator again should be restrained. In later quarters, the deflator probably will accelerate even if consumer and producer prices begin moderating.

In fact, consumer and producer prices probably will surge during the winter as a result of higher oil prices and then moderate in the spring. Oil prices may decline significantly during the spring as reduced seasonal demand for oil

will create substantial compliance pressures for the OPEC nations. If that develops, some price changes during the second quarter could be minimal. Nevertheless, more substantial inflation probably will develop during the second half of 1987.

Miscellaneous - As mentioned above, the leading indicators will be biased upward in December because of a surge in building permits. These permits then will decline early in 1987, causing the index to be biased downward. A better reading of the impact of the leading indicators probably can be determined by calculating the index excluding the building permits for the months of December, January and February.

Financial Markets

An acceleration in the monetary base tends to indicate that the Federal Reserve has, indeed, increased support for money growth in December and January. Some of this increased support spilled over into M1 growth and also into growth of other monetary aggregates. However, weakness in the response of expenditures to this increased availability of liquidity has caused the increased monetary accommodation to spill over into foreign exchange and financial markets.

However, the Federal Reserve's increased accommodation appears to be the result of responding to unusual year-end technical demands for liquidity rather than a significant shift in policy. Central banks worldwide were much more aggressive in seeking short-term American assets at the end of the year than in previous years. The result was a dramatic increase in federal funds rates and a sympathetic rise in other sensitive short-term rates. These technical pressures have now dissipated and the Federal Reserve must confront an excess money supply that has been absorbed through sharply accelerating equity values and sharply depreciating dollar values. The Federal Reserve appears to be is aware that excessive accommodation of technical conditions has occurred and is trying to restrain further money growth. This explains why short-term interest rates currently are substantially higher than had been projected in our forecast despite relatively weak economic growth.

Fortunately, the financial markets view this increase in money availability as a temporary phenomenon. As a result, the long end of the market has not significantly responded to higher short-term interest rates. Unfortunately, increased money accommodation is now generating increased money demand. The demand is being generated by increased inventory investments, partially spawned by potential for inventory profits. This potential for inventory profits, in turn, appears to be the result of falling currency values. Therefore, the Federal Reserve probably will face some difficulty in restraining monetary aggregates and upward pressures upon short-term rates and inflation.

Weakness in economic activity still is expected during the second quarter along with slowing in inflationary pressures as oil prices recede. If our assumptions about oil prices are incorrect, no downward pressures upon interest rates may materialize. However, assuming oil prices will decline and inventory pressures will begin subsiding, pressures upon the dollar will gradually ease early in the spring. This will then provide some leeway for the Federal Reserve to encourage lower interest rates. However, this decline in rates is expected to be relatively short-lived. Economic activity once again should begin increasing late in the year, leading to intensifying interest rate pressures. In addition, moderation in oil inflation itself is expected to be temporary.

Although optimism still is substantial in the bond markets, it appears more likely that interest rates will not fall as far as we currently project then that any significant further decline in interest rates will develop. As the Federal Reserve already has increased its accommodation, further Federal Reserve accommodation to ensure declining short-term interest rates is not likely. Only if money demand begins receding can further declines in interest rates be anticipated. Yet, economic conditions for reduced money demand are gradually diminishing. Although the economy will not be vigorous, inflationary pressures will intensify and some increasing inventory accumulations based upon rising commodity prices could begin to surface.

Equity Markets - Although a little inflation may be the equivalent of being a little bit pregnant, equity markets normally respond favorably to initial inflationary pressures. Normally, interest rates and wages continue to be motivated by previous inflationary experience while any pickup in the inflationary environment leads to growing profit margins and substantial gains in corporate profitability. That appears to be the economic environment that currently prevails in early 1987. As a result, corporate profits could increase 20% as measured by after-tax profits. A substantial portion of these profit gains will be the result of inventory profits and cannot be sustained. Normally, stock market values will ignore temporary gains in inventory profitability. However, at the beginning phases of accelerating inflation, the stock market tends to accept reported profits as sustainable profits. This permits equity values to rise 10% to 15% more than can be sustained by underlying economic conditions. This appears to be what is happening in the current equity markets. In other words, equity values currently are being dictated by predictions of changes in after-tax earnings rather than by changes in operating profits less tax liabilities (the equilibrium profit condition that ultimately dictates equity values). As after-tax profits are expected to rise sharply in the first half of 1987, equity values also can rise sharply. Unfortunately, when higher inflation begins to increase interest rates and wage pressures, possibly toward the end of 1987, the party's over. At that time, the stock market will experience a significant correction.

In the meantime, we are changing our formulas to suggest that equity values will depend upon changes in after-tax profitability. While this assumes "profit illusion", such illusion appears to be normal at this stage of an inflationary cycle. Under such circumstances, the Dow Jones could rise to the vicinity of 2300 during the spring. A movement to the 2500 level cannot be totally ruled out. However, this will create more than a 15% gap between stock market values and sustainable earnings estimates. Thus, a 15% correction in the market from those levels should be anticipated in the second half of the year.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	100105	100105	117.9	117.9	109882	109882	6.9	6.9	168.9	168.9
August	100261	100283	118.4	118.4	110155	110067	6.8	6.8	169.2	169.3
September	100368	100560	118.4	118.3	109891	109987	7.0	7.0	169.2	169.6
October	100558	100826	118.7	118.6	110169	110192	7.0	6.9	169.9	170.0
November	100713	101065	119.0	119.3	110235	110432	6.9	6.9	170.1	170.9
December	100868	101334	119.2	119.0	110278	110637	7.0	6.7	170.3	170.8
January 1987	100993	101542*	119.3	119.3*	110569	110857*	7.0	6.7*	170.8	171.2*
February	101108	101745	119.3	119.5	110799	111074	7.0	6.7	171.3	171.5
March	101223	101874	119.4	119.6	110990	111248	6.9	6.7	171.9	171.9
April	101462	102044	119.8	119.8	111216	111457	6.8	6.7	172.3	172.4
May	101654	102241	120.0	120.0	111452	111697	6.8	6.6	172.6	172.7
June	101846	102343	120.2	120.1	111688	112084	6.7	6.5	173.0	173.1
July	101993	102455	120.4	120.2	111816	112198	6.6	6.5	173.5	173.5
August	102104	102599	120.5	120.4	111945	112382	6.7	6.5	173.9	173.9
September	102215	102796	120.6	120.6	112074	112251	6.8	6.7	174.4	174.4
October	102420	102984	120.8	120.8	112280	112477	6.8	6.7	174.8	174.8
November	102565	103172	121.0	121.0	112483	112675	6.7	6.7	175.2	175.2
December	102711	103284	121.1	121.1	112687	112771	6.7	6.8	175.6	175.6

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	3.493	3.491	2.072	2.072	110.9	115.0	2.979	2.977	2.868	2.862
August	3.500	3.498	2.083	2.083	95.0	94.1	2.981	2.979	2.886	2.884
September	3.512	3.508	2.090	2.088	56.6	43.1	2.988	2.984	2.889	2.941
October	3.527	3.519	2.101	2.102	104.6	102.8	3.001	2.991	2.897	2.888
November	3.544	3.527	2.108	2.112	116.3	88.2	3.014	2.994	2.898	2.905
December	3.560	3.555	2.115	2.119	109.4	55.7	3.028	3.019	2.919	2.963
January 1987	3.564	3.560*	2.125	2.130*	128.3	130.9*	3.057	3.053*	2.929	2.922*
February	3.577	3.575	2.136	2.139	118.8	126.5	3.066	3.070	2.947	2.944
March	3.592	3.587	2.146	2.147	118.9	122.8	3.078	3.079	2.959	2.956
April	3.613	3.606	2.155	2.159	124.2	124.5	3.097	3.096	2.973	2.972
May	3.632	3.621	2.167	2.167	120.3	124.5	3.113	3.108	2.993	2.984
June	3.652	3.635	2.176	2.176	117.3	120.7	3.130	3.121	3.013	3.000
July	3.664	3.649	2.184	2.184	114.7	117.5	3.138	3.132	3.023	3.015
August	3.676	3.666	2.193	2.195	106.6	115.4	3.146	3.146	3.039	3.031
September	3.689	3.682	2.202	2.206	100.3	114.4	3.154	3.159	3.053	3.045
October	3.709	3.701	2.211	2.217	102.8	115.6	3.170	3.175	3.067	3.059
November	3.728	3.718	2.221	2.227	94.2	111.7	3.185	3.187	3.091	3.075
December	3.748	3.733	2.232	2.236	97.0	110.2	3.201	3.198	3.105	3.088

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	2772.7	2766.7	381.1	385.5	932.8	932.3	1448.9	1448.8	2433.3	2427.9
August	2790.2	2788.6	402.4	402.8	937.2	934.9	1450.6	1450.9	2443.2	2440.0
September	2834.9	2844.0	437.1	455.2	936.5	931.2	1461.3	1457.6	2474.6	2476.2
October	2799.1	2789.4	384.3	391.3	944.3	934.3	1470.5	1463.8	2436.1	2423.8
November	2799.8	2806.5	379.8	386.9	941.7	939.4	1478.3	1480.3	2428.3	2432.7
December	2820.0	2863.8	382.5	434.4	949.6	946.4	1487.9	1483.0	2437.3	2479.4*
January 1987	2829.3	2821.9*	379.6	376.5*	954.5	951.8*	1495.2	1493.6*	2437.0	2433.8
February	2846.6	2842.7	384.1	382.4	958.2	956.5	1504.3	1503.8	2443.4	2442.3
March	2858.2	2854.9	386.5	385.7	957.1	958.5	1514.6	1510.7	2445.0	2446.3
April	2871.1	2869.7	389.4	389.9	958.2	959.9	1523.5	1519.9	2449.7	2452.2
May	2891.1	2881.2	393.6	390.3	964.7	963.3	1532.8	1527.6	2462.6	2454.4
June	2909.9	2897.4	393.3	395.0	976.9	967.0	1539.7	1535.4	2470.2	2461.4
July	2919.6	2911.0	395.2	396.7	975.6	971.0	1548.8	1543.3	2470.1	2463.7
August	2935.2	2926.5	396.8	398.9	980.2	974.7	1558.2	1552.9	2474.9	2467.3
September	2948.7	2940.0	399.6	401.1	980.6	978.1	1568.5	1560.8	2477.9	2470.4
October	2962.1	2954.3	397.8	403.1	986.4	981.8	1577.9	1569.4	2480.8	2474.7
November	2984.8	2969.6	405.3	404.8	993.1	985.7	1586.4	1579.1	2491.5	2479.2
December	2998.5	2981.5	404.7	404.8	998.0	989.5	1595.8	1587.2	2494.6	2479.8

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	119.80	119.80	18.88	18.88	10.7	10.7	73.49	73.49	27.43	27.43
August	121.57	121.52	19.13	19.14	12.7	12.7	73.88	73.61	28.57	28.77
September	127.18	128.33	19.22	19.30	16.1	16.1	73.83	73.71	34.13	35.32
October	121.34	121.66	19.15	19.25	10.3	10.3	74.43	73.98	27.76	28.44
November	120.18	120.94	19.53	19.25	9.5	10.5	74.22	74.23	26.43	27.46
December	121.54	126.26	19.71	19.53	9.8	13.6	74.85	74.81	26.98	31.92
January 1987	121.16	120.80*	19.61	19.46*	9.4	8.8*	75.23	75.27*	26.32	26.07*
February	122.00	121.87	19.64	19.54	9.6	9.3	75.52	75.64	26.84	26.69
March	122.21	122.43	19.62	19.62	9.9	9.6	75.44	75.80	27.15	27.01
April	122.64	123.05	19.79	19.68	10.0	10.0	75.52	75.91	27.33	27.46
May	123.67	123.37	19.99	19.81	10.2	9.9	76.04	76.18	27.64	27.38
June	124.59	124.22	20.07	19.96	10.1	10.2	77.00	76.47	27.52	27.79
July	124.71	124.75	20.06	20.03	10.2	10.2	76.89	76.79	27.76	27.93
August	125.28	125.30	20.08	20.06	10.3	10.3	77.26	77.08	27.94	28.16
September	125.45	125.84	20.13	20.12	10.3	10.4	77.29	77.35	28.03	28.37
October	125.89	126.37	20.26	20.24	10.2	10.4	77.75	77.64	27.88	28.49
November	127.31	126.89	19.99	20.18	10.6	10.5	78.27	77.95	29.05	28.76
December	127.63	127.19	20.03	20.24	10.5	10.4	78.66	78.25	28.94	28.70

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	1.782	1.782	1.137	1.137	1.759	1.759	378.1	380.7	335.2	338.9
August	1.818	1.795	1.199	1.186	1.673	1.673	382.2	382.6	338.1	340.6
September	1.680	1.664	1.116	1.102	1.613	1.603	382.8	382.6	338.2	340.4
October	1.694	1.628	1.133	1.085	1.592	1.565	384.3	379.7	338.6	338.1
November	1.687	1.585	1.143	1.087	1.576	1.613	385.5	377.0	338.8	335.3
December	1.680	1.802	1.141	1.209	1.583	1.893	385.9	380.3	338.2	338.0*
January 1987	1.713	1.598*	1.152	1.083*	1.567	1.426*	383.3	375.7*	335.1	333.7
February	1.698	1.635	1.150	1.117	1.569	1.458	380.7	375.2	332.2	332.9
March	1.685	1.640	1.136	1.126	1.543	1.492	378.7	374.7	329.6	331.9
April	1.637	1.627	1.121	1.105	1.517	1.523	379.8	371.2	329.7	328.5
May	1.625	1.606	1.115	1.103	1.483	1.501	379.7	372.0	328.7	328.6
June	1.612	1.558	1.112	1.065	1.472	1.453	379.5	371.5	327.7	327.3
July	1.615	1.540	1.120	1.026	1.470	1.427	377.8	369.5	325.7	324.7
August	1.607	1.542	1.117	1.034	1.463	1.429	376.5	367.9	324.3	322.7
September	1.600	1.553	1.099	1.056	1.438	1.435	375.7	367.8	323.0	322.1
October	1.597	1.536	1.087	1.029	1.445	1.421	376.5	368.1	322.9	321.8
November	1.593	1.538	1.084	1.016	1.452	1.426	377.9	368.0	323.3	320.8
December	1.588	1.523	1.080	1.022	1.455	1.432	379.1	368.5	323.2	320.4

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	129.8	130.2	72.5	71.7	175.9	178.8
August	131.9	131.4	73.6	72.4	176.7	178.8
September	132.2	130.1	73.5	74.0	177.1	178.5
October	132.0	129.1	74.3	71.9	178.0	178.6
November	131.7	128.2	75.2	70.7	178.6	178.0
December	131.2	128.5*	76.1	72.2*	178.6	179.6*
January 1987	130.9	126.9	75.5	70.9	176.9	177.9
February	130.6	126.4	75.1	71.3	175.0	177.5
March	130.4	125.8	75.3	71.5	173.0	177.4
April	130.8	125.5	75.4	72.2	173.6	173.5
May	131.1	125.2	75.6	72.6	173.0	174.2
June	131.2	124.8	75.6	73.0	172.7	173.7
July	130.9	124.3	76.1	73.5	170.8	171.7
August	130.6	124.0	76.6	73.9	169.3	170.0
September	131.0	123.7	77.0	74.5	167.7	169.6
October	131.1	123.5	77.2	74.9	168.2	169.7
November	131.4	123.1	77.6	75.5	168.9	169.4
December	131.6	122.7	78.0	76.1	169.5	169.7

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	278.6	278.6	106.22	106.22	27.39	27.39	27.42	27.42
August	278.1	277.5	103.85	103.85	26.33	26.33	27.28	27.28
September	277.8	276.6	108.99	108.72	28.63	28.22	27.22	27.08
October	278.1	276.0	104.63	103.57	27.42	26.91	27.36	27.72
November	278.5	276.6	104.28	109.27	27.05	28.65	27.21	27.91
December	279.0	277.1*	102.89	106.94*	26.43	27.74*	27.13	28.23*
January 1987	279.8	277.5	103.17	106.57	26.46	27.21	27.19	27.74
February	280.7	278.6	104.93	107.13	26.82	27.26	27.10	27.63
March	281.6	279.5	104.86	107.29	26.95	27.45	27.15	27.81
April	282.9	280.2	106.07	107.88	27.46	27.63	27.39	27.85
May	283.5	281.0	106.89	108.32	27.89	28.05	27.67	27.94
June	284.2	281.9	106.55	107.91	27.90	27.92	27.91	28.03
July	285.7	282.5	105.93	108.39	27.51	28.03	27.84	28.12
August	286.5	283.3	105.46	108.55	27.36	28.12	27.56	28.05
September	287.6	284.2	105.67	108.12	27.45	28.05	27.79	28.09
October	289.0	285.0	106.29	107.95	27.82	28.21	27.85	28.24
November	290.1	285.7	107.43	108.16	27.99	28.29	28.01	28.33
December	291.1	286.5	108.21	108.47	28.13	28.15	28.16	28.38

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	591.9	591.9	8.08	8.08	124.9	124.9	79.3	79.2
August	591.9	590.1	7.64	7.64	125.1	125.1	79.2	79.2
September	590.2	588.1	7.67	7.69	125.3	124.9	79.2	78.9
October	591.5	591.6	7.92	8.01	125.5	125.3	79.1	79.0
November	593.6	590.6	8.05	8.69	125.6	126.0	79.0	79.4
December	595.9	589.7*	8.18	8.43	125.7	126.6	78.9	79.6
January 1987	597.8	591.3	8.21	8.50*	125.9	126.9*	78.9	79.6*
February	599.4	594.0	8.15	8.52	126.0	127.2	78.8	79.7
March	602.3	596.2	8.26	8.56	126.2	127.3	78.8	79.5
April	604.6	597.9	8.30	8.60	126.8	127.4	79.2	79.4
May	606.9	600.1	8.34	8.57	127.4	127.6	79.6	79.4
June	608.7	601.8	8.38	8.64	128.0	127.8	80.0	79.4
July	611.5	603.5	8.46	8.70	128.0	127.9	79.8	79.3
August	613.4	605.2	8.57	8.57	128.0	128.1	79.6	79.3
September	615.7	607.1	8.69	8.65	127.9	128.4	79.3	79.4
October	618.0	609.0	8.42	8.93	127.7	128.6	78.9	79.4
November	619.9	611.4	8.65	9.07	127.7	128.8	78.7	79.4
December	622.6	613.7	9.03	8.90	127.9	128.9	78.7	79.3

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	327.6	327.6	287.3	287.0	308.5	308.5	114.7	114.7
August	328.2	328.2	288.3	288.2	307.7	307.7	114.9	115.0
September	329.2	329.3	289.5	289.3	308.8	308.8	115.3	115.3
October	330.3	329.8	290.4	290.3	310.0	309.3	115.6	115.0
November	331.1	330.7	291.0	290.9	310.5	309.6	115.9	115.3
December	332.0	331.5	292.0	290.9	311.1	309.3	116.3	115.6
January 1987	333.2	333.2*	293.1	291.8*	311.7	312.7*	116.7	116.0*
February	334.4	334.6	294.2	294.0	312.2	314.2	117.1	116.4
March	335.5	335.5	295.0	295.1	312.4	314.9	117.3	116.7
April	336.5	336.2	295.8	295.6	313.0	315.2	117.6	117.0
May	337.4	337.0	296.6	296.2	313.3	315.5	118.0	117.4
June	338.3	337.9	297.4	296.8	313.6	316.3	118.3	117.7
July	339.3	339.2	298.1	297.5	313.9	316.6	118.6	118.1
August	340.2	340.5	298.9	298.2	313.3	317.1	119.0	118.5
September	341.1	341.7	299.6	298.9	311.2	315.3	119.4	118.9
October	342.2	342.8	300.6	300.0	314.3	318.2	119.8	119.3
November	343.3	343.8	301.6	301.0	315.1	319.0	120.1	119.7
December	344.4	344.9	302.5	302.1	315.9	319.7	120.4	120.1

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	113.9	114.0	105.5	105.3	106.1	106.1	122.4	122.5	112.8	112.4
August	114.2	114.3	105.8	105.7	106.4	106.4	122.8	122.9	113.0	112.3
September	114.5	114.9	106.3	106.5	106.7	107.1	123.2	123.6	113.1	112.4
October	114.9	115.1	106.5	105.4	106.9	107.1	123.7	124.0	113.5	112.3
November	115.3	115.4	106.3	105.7	107.1	107.3	124.1	124.3	113.8	112.4
December	115.7	115.5*	106.2	106.5*	107.5	107.5*	124.5	124.5*	114.1	112.5*
January 1987	116.1	115.9	106.5	105.8	107.9	107.9	125.0	124.9	114.4	112.6
February	116.5	116.4	106.7	106.0	108.1	108.4	125.5	125.4	114.6	112.7
March	116.9	116.7	106.9	106.3	108.2	108.6	126.0	125.8	114.9	112.9
April	117.2	117.0	107.1	106.6	108.5	108.7	126.4	126.3	115.2	113.0
May	117.4	117.4	107.3	106.9	108.8	108.9	127.0	126.8	115.5	113.2
June	117.8	117.7	107.5	107.1	109.1	109.2	127.5	127.2	115.8	113.5
July	118.2	118.2	107.6	107.4	109.3	109.5	128.1	127.8	116.0	113.8
August	118.6	118.6	107.8	107.8	109.5	109.9	128.6	128.3	116.1	114.0
September	119.0	119.0	108.0	108.1	109.8	110.2	128.9	128.8	116.3	114.2
October	119.4	119.4	108.2	108.5	110.2	110.5	129.4	129.2	116.6	114.4
November	119.8	119.8	108.4	108.8	110.6	110.8	130.0	129.7	116.9	114.7
December	120.2	120.2	108.6	109.1	111.0	111.1	130.6	130.3	117.3	115.0

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	-16.06	-16.06	179.4	179.4	4210	4220	3670	3678	9.4	9.4
August	-13.32	-14.04	179.1	179.1	4233	4241	3684	3688	13.6	9.5
September	-16.67	-14.74	179.3	179.5	4260	4261	3695	3694	-4.1	-3.9
October	-15.62	-14.71	179.8	180.4	4276	4250	3699	3696	-6.7	-6.3
November	-15.29	-19.22	179.9	182.5	4289	4268	3701	3702	-11.3	-9.4
December	-14.84	-15.28p	179.6	184.1*	4305	4287	3702	3708	-13.5	-11.3
January 1987	-15.29	-14.36*	179.3	183.5	4323	4299	3704	3706	-11.6	-14.2
February	-15.07	-13.79	179.4	183.2	4347	4330	3712	3720	-10.8	-12.6
March	-14.85	-14.05	179.7	183.6	4370	4349	3725	3727	-9.9	-10.5
April	-14.63	-13.83	180.0	183.4	4398	4360	3740	3726	-8.9	-6.3
May	-14.41	-13.65	180.2	182.7	4426	4382	3751	3733	-7.3	-4.1
June	-14.18	-13.61	179.8	181.9	4454	4396	3765	3735	-6.7	-6.2
July	-15.86	-13.46	179.5	182.4	4467	4422	3766	3744	-1.2	-8.1
August	-15.27	-13.35	179.7	182.1	4480	4437	3765	3744	-1.3	-10.2
September	-14.68	-13.88	180.2	182.6	4492	4449	3762	3742	-5.0	-11.3
October	-14.72	-13.92	180.6	181.8	4517	4470	3770	3747	-9.9	-11.8
November	-14.64	-13.71	180.9	181.5	4536	4497	3777	3757	-15.6	-12.9
December	-14.56	-13.63	181.3	182.4	4556	4520	3784	3764	-19.9	-14.4

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	245.5	245.7	676.1	676.0	2699.1	2699.2	6.56	6.56	5.86	5.86
August	246.8	247.7	687.8	687.6	2723.8	2724.3	6.17	6.17	5.55	5.55
September	248.6	248.7	693.3	693.2	2740.6	2740.8	5.89	5.89	5.35	5.35
October	250.5	250.8	701.8	701.2	2758.4	2765.2	5.83	5.85	5.30	5.26
November	252.9	252.9	707.3	713.5	2773.5	2781.4	5.76	6.04	5.20	5.41
December	255.3	254.5	712.8	730.4	2788.2	2804.3	5.68	6.91	5.16	5.55
January 1987	256.4	257.3*	719.2	735.9*	2804.6	2823.9*	5.37	6.15*	4.91	5.43*
February	257.3	259.0	723.0	739.9	2822.5	2839.8	5.20	6.00	4.95	5.36
March	258.3	260.4	727.8	743.6	2840.8	2855.8	5.16	5.76	4.99	5.17
April	260.1	261.3	732.9	748.5	2859.3	2871.7	5.22	5.43	5.02	5.01
May	262.0	262.4	736.5	754.0	2876.9	2889.9	5.27	5.37	5.03	4.93
June	263.9	264.0	740.1	758.2	2894.5	2909.2	5.33	5.42	5.05	5.12
July	265.2	265.7	744.3	765.4	2910.6	2931.5	5.50	5.48	5.30	5.20
August	266.7	267.2	747.6	771.2	2923.9	2950.9	5.56	5.57	5.34	5.26
September	268.3	268.6	750.9	775.7	2937.2	2967.6	5.62	5.88	5.38	5.38
October	269.9	270.3	756.0	782.9	2956.1	2988.9	5.65	6.03	5.30	5.47
November	271.2	271.8	762.1	788.2	2974.5	3011.9	5.69	5.96	5.26	5.54
December	273.5	273.2	768.1	794.6	2992.8	3033.7	5.73	6.13	5.22	5.45

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1986	8.88	8.88	7.51	7.51	6.33	6.33	6.37	6.37	8.16	8.16
August	8.72	8.72	7.21	7.21	5.92	5.92	5.92	5.92	7.90	7.90
September	8.89	8.89	7.11	7.11	5.68	5.68	5.71	5.71	7.50	7.50
October	8.93	8.86	7.06	7.08	5.73	5.68	5.75	5.69	7.50	7.50
November	8.76	8.68	6.89	6.85	5.70	5.76	5.72	5.76	7.50	7.50
December	8.53	8.49	6.65	6.86	5.64	6.10	5.67	6.04	7.50	7.50
January 1987	8.56	8.38*	6.68	6.53*	5.30	5.85*	5.26	5.87*	7.39	7.50*
February	8.50	8.59	6.61	6.74	5.17	5.90	5.15	5.95	7.00	7.50
March	8.60	8.43	6.71	6.58	5.12	5.75	5.12	5.84	7.00	7.50
April	8.65	8.22	6.76	6.33	5.17	5.42	5.20	5.45	7.00	7.38
May	8.57	8.10	6.69	6.20	5.26	5.28	5.33	5.29	7.00	7.25
June	8.62	8.17	6.75	6.23	5.35	5.35	5.41	5.37	7.00	7.25
July	8.97	8.35	7.23	6.39	5.63	5.46	5.69	5.52	7.08	7.25
August	9.20	8.58	7.44	6.56	5.68	5.63	5.80	5.74	7.50	7.39
September	9.22	8.72	7.47	6.71	5.70	5.89	5.84	5.98	7.50	7.50
October	8.99	8.91	7.24	6.91	5.73	6.05	5.86	6.17	7.50	7.62
November	8.90	8.86	7.14	6.91	5.75	6.03	5.89	6.20	7.50	7.75
December	8.87	8.89	7.10	6.95	5.72	6.17	5.85	6.29	7.50	7.75

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